

ASSESSMENT OF DONOR-FUNDED POLICY INITIATIVES IN MONGOLIA:
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1 INTRODUCTION

The following assessment examines on-going donor-supported policy initiatives, with an emphasis on initiatives relevant to USAID strategic objectives. Numerous programs and projects supported by the international community include policy components. It provides an overview of major donor-funded loans and grants that support development, and in some cases implementation, of Mongolia's framework of policies and laws.

The line between policy development and policy implementation is a gray one, and many policy related initiatives supported by donors include both. The paper focuses on programs related to policy development -- usually related to providing technical assistance and support for researching, developing, and setting up processes for legislative and public review of draft legislation.

The paper also examines major programs to support implementation of the laws and policies. However, this part of the analysis is not comprehensive because of the large number of existing donor-funded projects that ostensibly serve this purpose. The Donor Coordination Assessment (background paper #4) provides a more comprehensive, though still incomplete, summary of these initiatives.

Finally, this paper focuses on significant policy initiatives and specific policy-oriented technical assistance programs underway that are especially relevant for USAID strategy planning, with an emphasis on policy technical assistance in the areas of economic growth and democracy assistance. It is important to note that very often, technical assistance provides a mix of policy/legal advice and support for policy implementation.

1.1 Overall considerations

Approaches to policy differ quite markedly among the donor community.

- **The policy lending approach.** Much of the aid from the larger multi-lateral donors, in particular ADB, IMF, and the World Bank, is provided in the form of "policy-based lending." Under policy-based lending, loans are approved and tranches disbursed, depending on the government's performance in achieving specific policy and institutional reforms specified in the loan program documents. Some loans are supported with grant and loan-based technical assistance programs that provide teams of international consultants and local consultants to assist with policy implementation.

The professional qualifications and international development experience of the multi-lateral banks' staff and consultants and the quality of the analysis and policy prescriptions is usually high. Reforms also can often be quickly developed and adopted because of the high level of the government officials involved.

However, several factors potentially limit the effectiveness of many policy loans. Because the multi-lateral banks set most of the conditions in the loans, the approach tends to be quite top-down, and loan conditions for policy reform generally reflects the banks' understanding of "best practices." Despite rigorous analyses of problems

and development of priority solutions reflected in the loan conditions, the implementation of the policy reforms required by the loans may suffer from lack of local ownership, design flaws due to consultants limited understanding of local social, economic, and political conditions, as well as from the generally short term and periodic nature of the international consulting teams that provide technical assistance. The effectiveness of these teams, the commitment of government to the reforms that they undertake in return for the loans, and the extent to which the multi-lateral donor monitors and enforces loan conditions before releasing tranches vary widely.

- **The long-term resident advisor approach.** Other donors, including USAID, GTZ, and UNDP use long-term resident advisors, supplemented with short-term consultants, to work with government, private sector and civil society on supporting the development and implementation of new laws and policies. These initiatives rely heavily on the advisor, his/her competence and knowledge of local conditions and their ability to build trust and relationships with local counterparts. When the advisor is competent and gains the trust of counterparts, the advisor's long-term presence provides a chance to better integrate international reform experiences with knowledge of local conditions, constraints and opportunities.
- **The sectoral strategy approach.** The World Bank, ADB, and UNDP have all been active in working with government officials, private sector, civil society and donors in developing shared strategic frameworks and policy and implementation priorities for specific sectors.
- **The dialog approach.** An increasing number of organizations also support policy initiatives by working with counterparts in government, civil society and the private sector, to increase dissemination, awareness, discussion and debate on proposed new laws and policies before they are finally approved, as well as to increase public monitoring of and participation in policy implementation. This may take the form only of increasing dialog between high level members of the government and the political opposition, or it may be more public in nature. The common element of these initiatives, which may include bringing public officials together with key stakeholders to discuss a given policy or problem, is that they attempt to build the relevance of and support for policy by broadening the scope of discussion to include a wider group of stakeholders in discussing a specific problem or policy intervention.
- **Participatory approaches to policy.** Some donors and international organizations work directly with civil society organizations, with the private sector, as well as with government in policy making. Though they do not usually espouse a specific policy agenda, they may convene or support local organizations to convene meetings of key stakeholders to discuss key problems and issues, to identify root causes of problems, and to prioritize policy actions. They may support public advocacy and public information campaigns to increase awareness of a given problem, or propose new policy ideas for debate. Although such policy interventions may be time-consuming, and donors do not have as much control of the outcome, the potential for local awareness raising, consensus-building, ownership and participation may outweigh

interests for speed and international rigor. Many donors increasingly seek to involve, and encourage government counterparts to involve, the private sector, civil society organizations, and the public in policy initiatives.

Other issues that regularly emerged from the interviews and research conducted for this paper as well as for Background Paper #4 on Donor Activity include:

- In many sectors, donors, government representatives, and others expressed the view that many of the most important legal and policy reforms necessary in Mongolia are largely in place, but there are large gaps between laws adopted and effective implementation. Mongolia has adopted many relatively progressive new policies and laws, but implementation generally lags far behind. As the representative of one donor put it, “Mongolia has done a lot of legislative and institutional reforms, and created a shell of a market economy. Now more needs to be done in filling it out.” In recognition of this, many donors are increasingly shifting their assistance away from policy advice and toward policy implementation. This work includes building the capacity of government and other actors to implement the policies and laws that have been created over the past 12 years.
- Effective policy implementation is hindered by a lack of coordination between the government ministries and the donors. Coordination is improving, many believe, especially among the larger donors on the economic side. However the sheer number and scale of initiatives, virtually all with separate but often overlapping objectives and action plans, is a barrier to effective cooperation and efficient use of ODA. The creation of sectoral strategies is viewed by many as a positive development to ensure that donor funds are used more efficiently.
- Effective implementation of donor-funded policy initiatives, especially multi-lateral policy lending, is hampered by the lack of public awareness and participation in reviewing and commenting on draft laws, understanding the purposes of and the rules established, and monitoring implementation by public servants.
- Many expressed the view that Mongolia is “over-donored” and government is stretched to the limit in managing the numerous national and sectoral strategies. There are also concerns that ODA loan and grant programs often overlap or lack effective coordination of objectives and activities.
- The low level of dialog between practitioners and policy makers – combined with the importation of many policies and laws with minimal consultation with stakeholders -- means that awareness/understanding of and support for many new laws and policies is often weak among key stakeholders and the general public. Ensuring that local concerns and lessons learned from grassroots initiatives and demonstration projects are considered in the policy making process was noted as a priority improvement. Increasing public awareness of and opportunities to review and comment on draft policies and laws was also recommended.

- It was regularly noted that, in order to be effective, laws and policies must be tied to practical incentives for civil servants responsible for implementing them as well as for citizens who must comply with them.
- Among the largest donors, maintenance of a stable macroeconomic environment, implementation of finance sector policies and laws, implementation of new public sector reform legislation, and providing a more favorable legal and financial environment for the private sector were noted as key objectives for the widely shared twin goals of improving economic growth and reducing poverty.

2 SUMMARY OF DONOR-SUPPORTED POLICY INITIATIVES IN MONGOLIA

2.1 Overall government policy framework

Both the UNDP-supported “Good Governance for Human Security Program,” and the soon-to-be-finalized World Bank and IMF-supported “Poverty Reduction Strategy Paper” attempt to lay out overall frameworks of priorities for national policy. The “Good Governance for Human Security” (GGHS) program, adopted by the Parliament in 2001, provides a framework of 11 national priorities organized in four main areas: economic transition, equity and social policy, the environment, sustainable and sound governance. It includes specific activities and performance measures, and is managed by senior government officials led by the Prime Minister. Development of the framework was supported by UNDP and Sweden. Although there is a UNDP funded program to assist with implementation, support for implementing the numerous goals in the framework is limited and largely relies on on-going government and donor-assisted programs.

The soon-to-be-finalized World Bank-supported “Poverty Reduction Strategy Program” (PRSP) also provides an overall national framework for improving economic growth, increasing democratic governance, improving equity and reducing the vulnerability of the poor and other vulnerable groups, and protecting the environment. If the PRSP is approved by the government and the boards of the World Bank and IMF, Mongolia will become eligible for up to \$40 million in credit from the World Bank and IMF for implementation. Development of the PRSP, formally under the Ministry of Finance, has been supported by several World Bank missions. The World Bank also completed a detailed Public Expenditure Review that examines weaknesses in public finance and public sector efficiency and effectiveness and identifies public sector reform priorities, designed to support the development of the PRSP and PRSC. The missions, conducted by a team of World Bank staff together with government counterparts, conduct detailed analyses of issues related to public expenditure, provide prescriptions for improving problems, and involve negotiation with the government officials over actions to be specified in the PRSP, the conditions and framework of the planned PRSC, as well as feedback on issues related to other World Bank loans and their conditions.

2.2 Public sector management and finance reform

As noted in Background Paper #4, several donors have been active in providing support for reform of the legislative and financial framework for Mongolia's public sector. This support takes the form of loans, grant and loan-funded technical assistance, and missions that provide long- and short-term advisors and consultants to conduct research, provide policy advice, assist in drafting legislation, and to develop programs to improve management systems, training regimes, and other components of the institutions responsible for implementing policy reforms.

ADB's \$25 million governance reform program seeks to enhance fiscal discipline, improve public sector budget formulation and execution, and strengthen overall public sector operational efficiency. The program includes the \$25 million loan and three technical assistance grants to assist in capacity-building for implementation of the first set of governance reforms, to establish a public expenditure system, and to "study central-local government aspects of reform implementation." Program execution is the responsibility of the Cabinet Secretariat and the Ministry of Finance. A technical assistance (TA) grant of \$1.1 million supports the Cabinet Secretariat in monitoring progress of the overall program, initiating administrative reforms, and extending reforms to other agencies. The TA provides for 16 person months of international consultancy (\$682,951) and 62-person months of local consultants to assist the Cabinet Secretariat in carrying out the reforms. A second TA grant of \$496,000 supports the Ministry of Finance in developing the public expenditure system through the provision of an international consultant and team of local consultants. The third TA grant of \$235,000 supports pilot testing of reforms in two *aimags*. All of the international consultants hired under these TAs were not permanent consultants but were hired to visit on periodic missions.

This program is linked to a series of ADB TAs that supported development of a new law on public sector reform. This law, which finally passed in 2002 after five years of discussion, based on the New Zealand model, a law to improve the transparency and accountability of public procurement, support for rationalizing the civil service, and developing a strategy to accelerate economic growth. ADB also recently completed a detailed draft "Governance Assessment of Mongolia" that looks at aspects of public, private sector, and civil society governance and roles in governance. The World Bank supported Public Expenditure Review noted above also provides an analysis of needed public sector financing reforms.

2.3 Multi-lateral policy lending

Major multi-lateral donors, including the Asian Development Bank, World Bank, and IMF, influence macroeconomic policy by linking loan disbursements with conditions set out in the loan agreements. The policy reforms specified in the loans are supported by the provision of long-term advisors, short-term consultants, and periodic missions of teams from the multi-laterals headquarters that conduct review government compliance with the loan conditions, make specific recommendations for change in fiscal, monetary, and exchange policies based on these reviews, and to varying degrees provide advice on specific legislation and policies related to the macroeconomic situation. This technical

assistance has a very direct effect on government policy because of its specificity and because it is backed up with loan disbursements that directly support the government budget. If the government does not adequately meet the requirements, the donor may withhold planned disbursements. These “balance of payments” loans are particularly influential because funds are disbursed directly to the central budget if conditions are met. Many but not all of these credits are accompanied by technical assistance in the form of long- and short-term consultants, generally working directly with the relevant line ministry, as well as with periodic missions from the donor. This technical assistance supports both the development and implementation of specific laws and policies, including building the capacity of institutions responsible for policy implementation.

The IMF’s Poverty Reduction and Growth Facility (formerly the Economic Structural Adjustment Facility) influences the government’s macroeconomic policy by setting out a medium-term framework with specific conditions that must be met in order for planned tranches to be released. In fall 2001, the IMF approved a \$37 million PRGF for Mongolia that lays out specific targets for macroeconomic stability, private-sector led and outward-oriented growth, and broad-based and equitable distribution of benefits from growth. According to the IMF’s official press release, government goals under the PRGF medium-term framework include raising real GDP growth to 6 percent by 2004 while reducing inflation to 5 percent, containing the external current account deficit in the range of 6-7 percent of GDP, and raising gross official reserves to about four months of import cover. It also sets goals of keeping the budget deficit to 7¼ percent of GDP in 2001 and reducing it to around 6 percent of GDP by 2004, keeping inflation in single digits, increasing fiscal transparency and accountability, strengthening tax administration, implementing public enterprise reform and privatization, reform in the energy sector, instituting social safety nets to protect vulnerable groups, and strengthening banking sector reforms.¹

Implementation of the PRGF is closely watched by the World Bank and ADB. Failure to meet targets under the PRGF can adversely affect disbursements under certain World Bank and ADB loans (particularly FSAC). In addition, the ADB will not initiate new programs if the IMF program is not on track. The GOM and IMF have not reached agreement since the beginning of the year, and two planned tranche releases under the PRGF have not been made, mostly due to IMF concerns over the effect of civil service wage increases on the budget deficit. The IMF has also provided technical assistance for budget expenditure control, public expenditure management, tax administration and policy.

The World Bank and Asian Development Bank financial sector loans are similar to the PRGF in that they set certain conditions for the release of loan disbursements to the central budget. These two loans, which follow a shared matrix of conditions for loan disbursements, are more narrowly targeted on the financial sector but also require that the government “maintain a sound macroeconomic framework” which is closely tied to the PRGF framework. The World Bank’s \$32 million Financial Sector Adjustment Credit and the Asian Development Bank’s \$15 million second Financial Sector Program, both approved in 2000, set conditions on financial sector reform according to the

government's medium-term strategy for financial sector reform, and are based on the assumption that problems in the financial sector are one of the most important barriers to sustainable economic growth. The loans require specific reforms in bank restructuring and privatization, corporate governance in banking institutions, loan collateral, banking supervision and regulation, regulation of non-banking financial institutions (NFBIs), asset recovery and non-performing loans, rationalizing the payments system, public debt and management of financial markets, development of human resources and financial infrastructure, development of capital markets, and consensus building on financial sector reform.

In accordance with the medium-term strategy, the government has established a Financial Sector Development Performance Group as a high level forum to exchange ideas and reach consensus including the government policy making bodies, members of Parliament, NGO and private sector representatives, and donors (including ADB, World Bank, GTZ, JICA, IMF, and USAID). The ADB loan is accompanied by a \$600,000 technical assistance grant which finances 18 months of international consulting services and 10 months of domestic consulting services provided to the Ministry of Finance and Central Bank. The government has requested a \$5 million technical assistance credit from the World Bank to support implementation of FSAC.

Several other ADB programs include technical assistance policy components funded through both loans and grants. Programs in agriculture, social security, health and education (both now closing) include policy components that fund long-term technical assistance, most of it provided to the relevant line ministries. At any given time, ADB fields 2-3 teams of international and domestic consultants providing technical assistance to the line ministries in developing policies and laws, capacity building, and assistance in administering the loans. ADB also provides technical assistance to assist government in preparing new loan programs.

The World Bank provides a smaller percentage of technical assistance in the form of grants. Although some TA grants are provided, more often World Bank technical assistance is provided in the form of loans or periodic and sometimes frequent missions of teams of World Bank staff. Several other World Bank loans and initiatives include policy-related components, including support for the Rural Development strategy recently completed by the Ministry of Agriculture, the pastoral risk management component of the Sustainable Livelihoods project, the Public Expenditure Review designed to support the PRSP, and poverty assessments that address policy issues and are targeted at policy makers. The World Bank's new Legal and Judicial Reform program loan includes support for implementing a new law on administrative courts. Projects in the transport and energy sectors also provide some policy advice. The World Bank has played a role in developing sectoral strategies and better coordination in the energy and ICGT sectors.

2.4 Policy initiatives of major bi-lateral donors and UN agencies

Unlike loans from the multi-lateral development banks, support from major bilateral donors and UN agencies tends to more often be in the form of long-term resident expatriate advisors and consultants, together with local staff and consultants. USAID has granted significant amounts of long and short-term technical assistance through its economic support projects. The Economic Policy Support Project has supported a resident advisor and international consultants on specific economic issues requested by the government to the office of the Prime Minister, ministries of finance and infrastructure, State Property Committee, Parliament's Economic Standing Committee, and shareholders of energy entities including provision of long-term advisors for the past six years and international consultants who have worked with government counterparts in the areas of economic policy, financial sector reform, and energy policy. This assistance has directly contributed to the review and development of many new economic laws and policies, including the energy law, civil code, and insurance law. USAID support has gradually shifted from an emphasis on policy advice to a greater emphasis on policy implementation and demonstration projects, including the Gobi Initiative's work in rural areas, the Competitiveness Initiative support to strengthening competitiveness of specific sectors, provision of a management team to the Agriculture Bank and supporting the tenders for the privatization of the most valued companies.

Most of GTZ's grant assistance is provided in the form of long-term international advisors and short-term consultants, including 8 long-term international advisors. Much of the assistance is targeted at project implementation rather than policy advice though several GTZ projects have components related to economic and legal policy formulation and implementation. The Rural Self-Help project maintains a dialog with the Ministry of Agriculture to improve the political, legal, and economic framework for cooperatives and other rural self-help activities. GTZ's commercial law project has provided long-term assistance to the Ministry of Justice, parliament secretariat, national university law school and to the judiciary on developing a favorable legal and regulatory framework for commercial activities. The Renewable Energy project provides technical advice to the Ministry of Infrastructure to assess and address policy and legal constraints to use of renewable energy sources. The Reproductive Health project provides support to the Ministry of Health on the policy and operational levels.

UNDP programming includes large amounts of technical assistance, much of it targeted at the policy level, in the areas of poverty reduction and democratic governance. In addition to supporting the good governance framework mentioned above, UNDP supports long-term advisors and consultants to assist government counterparts in formulating and implementing laws and policies related to human rights, anti-corruption, and implementation of environmental laws and standards. UNDP's Poverty Research and Employment Facility project focuses on policy actions to reduce poverty including research, preparation of a national human development report, and establishing a poverty research group.

Japan and JICA also field senior advisors and international consultants placed mostly in line ministries through their development and grant programs, programs to provide

experts and senior volunteers. These advisors operate largely behind-the-scenes in supporting the work of relevant ministries and other organizations.

The EU also provides technical assistance related to policy in its two main areas of cooperation, rural development and development of the private sector.

2.5 Other policy initiatives.

The Soros Foundation has supported a small number of policy initiatives in its fields of interest. In addition to providing technical assistance to assist in drafting Mongolia's Company Law, it also provided technical assistance for the early sealed-bid auction system aimed at privatizing SMEs. Soros provided technical assistance to support development of a few sections of the new criminal code and police policy. Soros actively supported the development of Mongolia's ICT-Vision 2010. It also supported development of several policies in the social sector. Finally, it is now developing a new program, the Open Forum, designed to promote public participation in policy development and implementation, provide a physical and virtual place for policy information and discussions, and support demonstration policy implementation projects.

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¹ IMF, 2001, pp. 3-4.